



## GLOBAL TRENDS IN PACKAGED FOOD

REPORT COMPILED FOR SIAL, PARIS

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## THIS REPORT WILL COVER:

- WHAT POTENTIAL DOES FOOD HAVE IN ONLINE RETAILING?
- GLOBAL CHOCOLATE CONFECTIONERY OVERVIEW: CHALLENGES, OPPORTUNITIES AND RISKS
- READY MEALS: CHALLENGES AND OPPORTUNITIES TO REACH MARKET POTENTIAL



## WHAT POTENTIAL DOES FOOD HAVE IN ONLINE RETAILING?

- INTRODUCTION
- ASSESSING THE GROCERY BASKET
- RECOMMENDATIONS

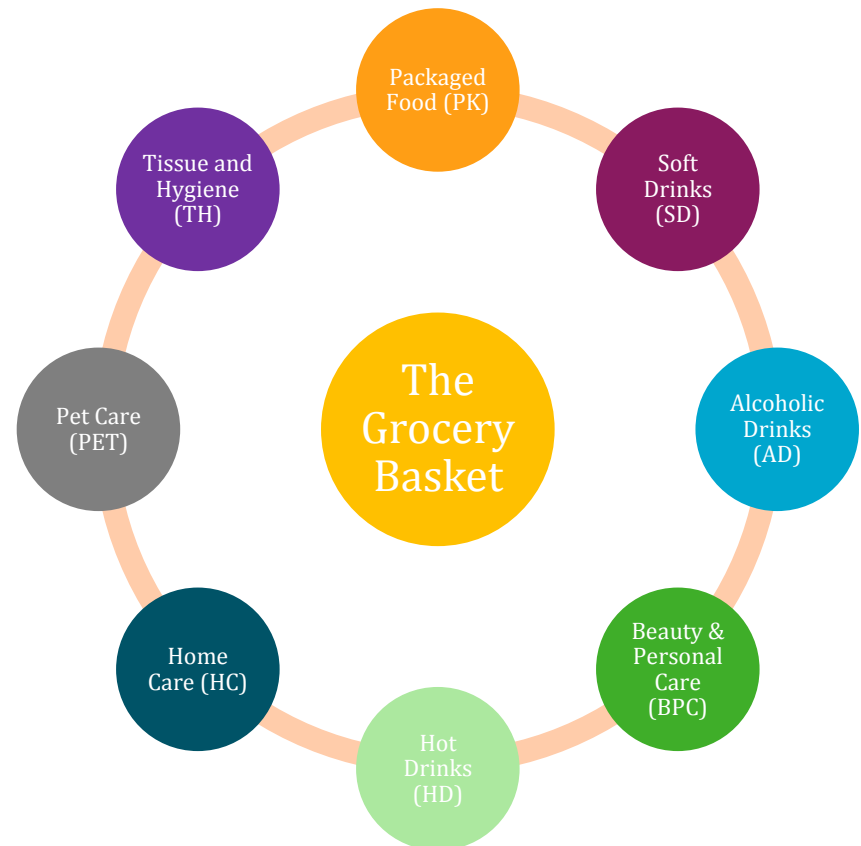


## Key findings

<p>In online retailing, food is not as central to consumers as it is in store-based retailing</p>	<p>Through store-based retailing, food sales account for nearly 50% of the average grocery basket globally. Given the centrality of food to our lives, this is somewhat unsurprising. In contrast, however, food sales only account for 36% of the average global grocery basket through internet retailing. This large discrepancy highlights different motives which inform purchasing in physical and digital spheres.</p>
<p>Global online growth should focus on a handful of markets including South Korea and China</p>	<p>Grocery sales via internet channels already account for 10% of total sales in South Korea. In this market, online purchases appear to be replacing offline transactions for some food products – particularly staples. South Korea highlights the potentially disruptive impact online could have on food sales. Whilst the scope of growth is unique in this market, China is another where manufacturers may have to prioritise online strategies in the future.</p>
<p>Food shopping follows the same habits online and offline in Western Europe</p>	<p>Countries in Europe where the adoption of online grocery shopping have been more successful – such as France and the UK – have so far seen consumers purchase their food from bricks-and-mortar chains' online services. In addition, online shops appear to mirror offline ones, with staple foods occupying the greatest share of both food baskets. In these countries, internet sales are not undermining in-store sales at present.</p>
<p>Consumers will still buy food impulsively, but will opt for different products online</p>	<p>The nature of how products are bought and consumed is fundamentally changed by online shopping, and this has a significant impact on many products, particularly snacks. However, whilst many of these rely on impulse, there is still potential for impulse to thrive online – but in different ways.</p>

## Defining “the grocery basket”

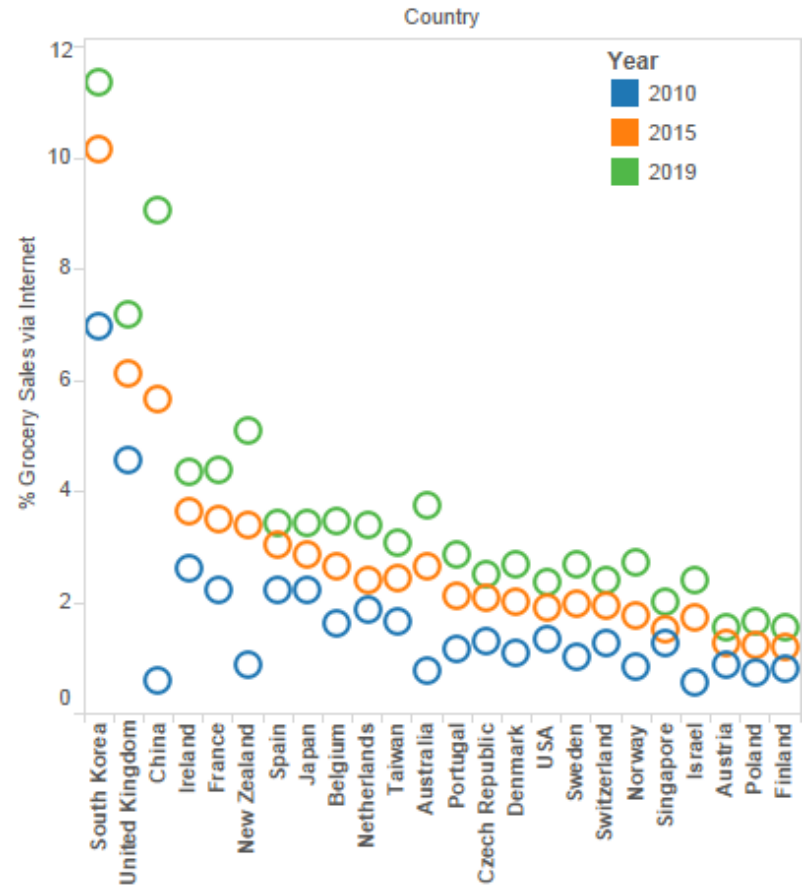
- Throughout this report there are references to the grocery basket. This basket, whose contents are shown opposite, comprises the most commonly found fast moving consumer goods within grocery retailers such as Wal-Mart, Tesco or Carrefour. While there is no rigid definition of a grocery basket – especially given that retailers have significantly expanded their stocks to include consumer electronics and homewares – this basket can loosely be defined as those products which are purchased most frequently via grocery retailers.
- The main focus of this report is on the packaged food segment of the grocery basket. Food is the most lucrative and frequently purchased of all goods within the basket – as the first graph in the next section shows, 50% of the average store-based grocery basket comes from food sales, as highlighted in blue. By contrast, however, food contributes only 36% of the world’s average online grocery shop in value terms. This report quantifies the potential for online food shopping to grow further globally, and assesses the potential impact this may have on food manufacturers’ portfolios.



## Internet grocery shopping's market share rises but remains weak

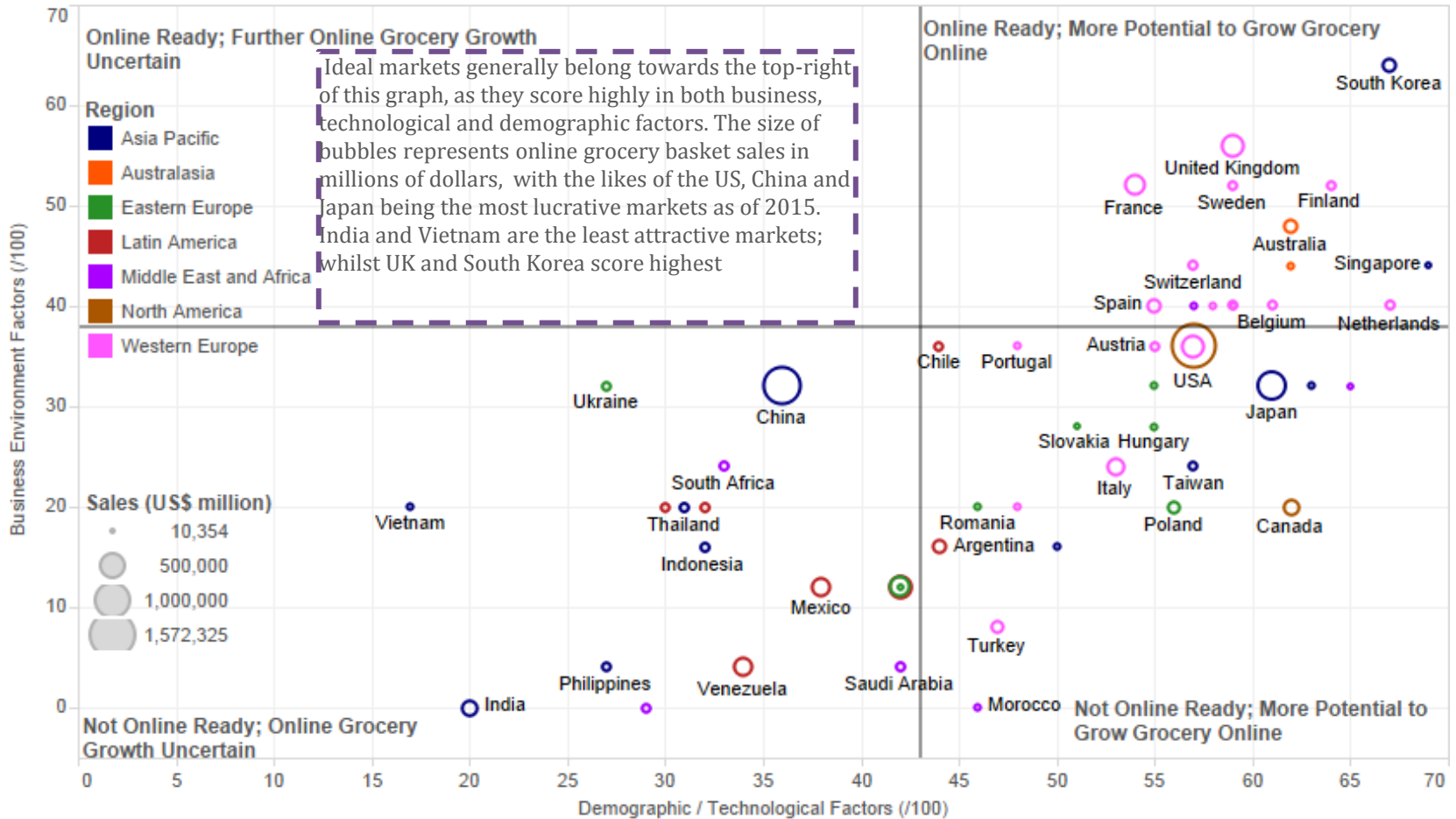
- Whilst still in its nascent stages, online grocery shopping now occupies a sizeable chunk of the retail landscape in a number of markets. South Korea, China and the United Kingdom lead the way, with 10%, 6% and 6% of grocery sales going through online platforms in 2015. Of particular note is the rise of China, with sales via internet retailing leaping by 5 percentage points between 2010 and 2015; this is forecast to grow to 9% by 2019.
- Yet the numbers generally remain relatively unimpressive for many countries – by 2019, many markets which are conducive to internet retailing growth will see sales hover around 3-4% of total grocery shopping.
- The slow take-off in online grocery shopping in many Western markets has been well-documented. Reasons bridge both supply and demand sides – consumers are sceptical regarding product quality and convenience, whilst for retailers internet delivery services remain expensive and logistically difficult to implement. Additionally, the recent rise of discounters, with limited online options, has inhibited online shopping.

% of Total Grocery Sales via Internet Retailing, 2010-2019



# Class of 2015: Western European countries boast most potential

Online Grocery Shopping Market Potential (/100) and Online Grocery Market Sales (US\$ Million) 2015



# No 'one size fits all' approach for global online strategy

## Brand sites must be utilised in Asia Pacific and Middle East

- Packaged food and buying online appeal to limited, wealthy audiences in many emerging markets. Those that can afford packaged food purchase branded goods due to their international reputation and perception of quality and safety. With private label and modern grocery retailing so limited in scope, the onus will be on manufacturers to launch their websites via portals such as Tmall and Taobao in order to appeal to such consumers.

## Product mix will be a mixture of value for money and exclusive online options

- With regards to product mix, smaller snacking products will be difficult to sell online - they are unpopular with retailers due to their low cost, and subsequently more difficult to buy online or simply unavailable. Consumers are not looking for these products online anyway. Larger pack sizes appeal to both retailers and shoppers in the online sphere, and so manufacturers should mimic this. Added value can stem from online exclusives.

## Interacting with Amazon and Google important in US

- US grocery retailers have so far failed to deliver when it comes to online shopping. Amazon and Google have both recognised a gap in the US and, with their online expertise superior to those of bricks-and-mortars rivals, their importance in the future of US grocery retailing should not be underestimated. These retailers will act as a catalyst for internet grocery shopping, and manufacturers should boost their presence on these platforms in the country.

## Impulsivity will be re-imagined

- Impulse can be just as powerful in online shopping as it is in offline, but companies will have to work with retailers in order to maximise the visibility of their products online and increase the possible interactions shoppers can have with their products. Manufacturers may also have to make expensive mistakes in order to find out what models work best. However, services such as Amazon Dash have genuine potential as impulse channels.



## GLOBAL CHOCOLATE CONFECTIONERY OVERVIEW: CHALLENGES, OPPORTUNITIES AND RISKS

- INTRODUCTION
- GLOBAL OVERVIEW
- OUTLOOK



## Key findings

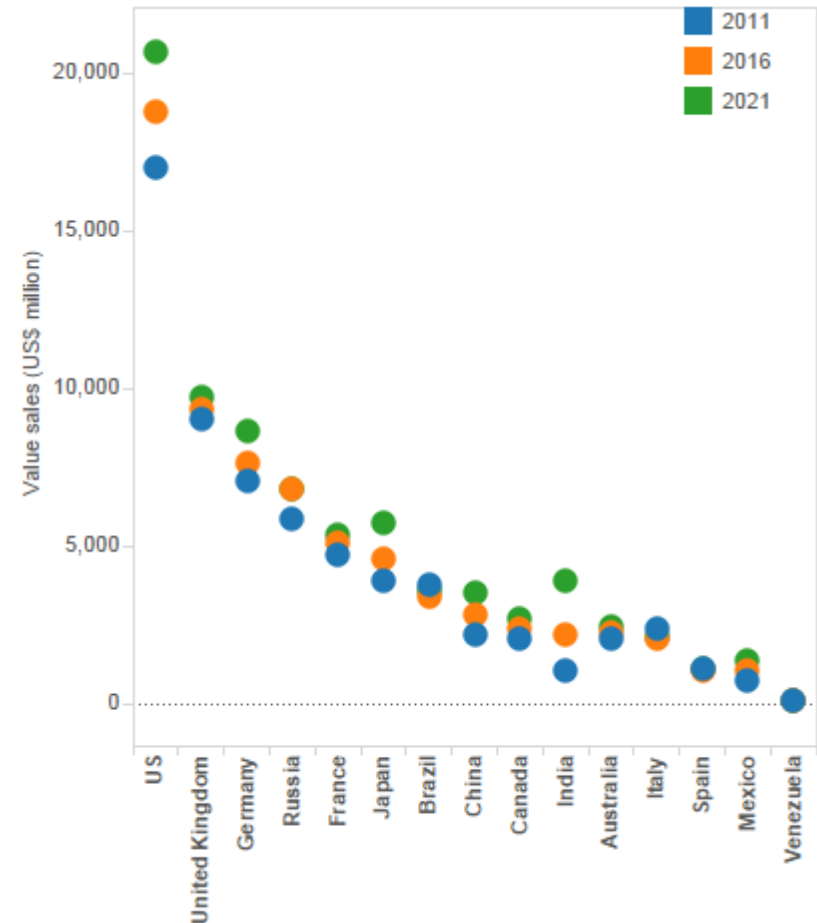
Chocolate faces a tipping point	This is an exciting time for the chocolate confectionery market, but only as a result of the difficulties it faces - the perpetual slowdown in the West is now being imitated in some markets such as China. Companies are slowly dealing with the challenges they face, but can expect a low growth environment for some time to come.
Retail environment will polarise in the next five years	Specialist chocolate stores are evolving from a marketing gimmick to a legitimate source of sales for many manufacturers. Ferrero and Lindt have been particularly proactive in pushing their retail divisions, with the latter's shop turnover increasing by 20% in 2015. Alongside this, more niche chocolate products will be available in high-spend chocolate markets, leading to a more fragmented competitive landscape.
Greater competition from new snacks provides existential threat to chocolate in the West	Negative health connotations continue to undermine chocolate sales in Western Europe and North America. There are a wealth of new snacks such as energy bars, nuts and meat snacks, which have managed to attract audiences looking for healthy alternatives to confectionery. These products are here to stay and will make it difficult for chocolate to grow, unless it can tap into local health trends.
Chocolate will continue to have a limited audience in the Middle East and Asia	Relative to other snacks, chocolate is beyond the price range of many in markets such as India, China and the Middle East. This will not change any time soon. Players with a small presence will need to target second- and third-tier cities, where newly-formed middle classes have developed, in order to gain market share. That said, targeting these cities is fraught with risks, as witnessed by Hershey's acquisition of Shanghai Golden Monkey.

## Chocolate remains the snack of the wealthy

- Sales of chocolate still predominantly stem from Western markets, particularly Western Europe and North America. It would take an entire month for the average Indian to earn as much as the average British person spends on chocolate in a year.
- Due to the input costs involved in manufacturing chocolate and low wages, chocolate remains beyond the purview of the majority of the population in a large number of countries.
- On the face of it, the chocolate industry is performing relatively well given the tough global environment. Value sales achieved a CAGR of 5% between 2011 and 2016, equating to an additional US\$21.4 billion in sales added over the period. Value growth has been spectacular in India and China (25% and 7% CAGRs, respectively) and steady in Western markets (3% and 2% CAGRs in the US and the UK, respectively). Perhaps most excitingly for manufacturers, China and India are likely to solidify their places in the top 10 biggest chocolate markets by 2021, with India overtaking large consumption markets such as Italy and Australia.

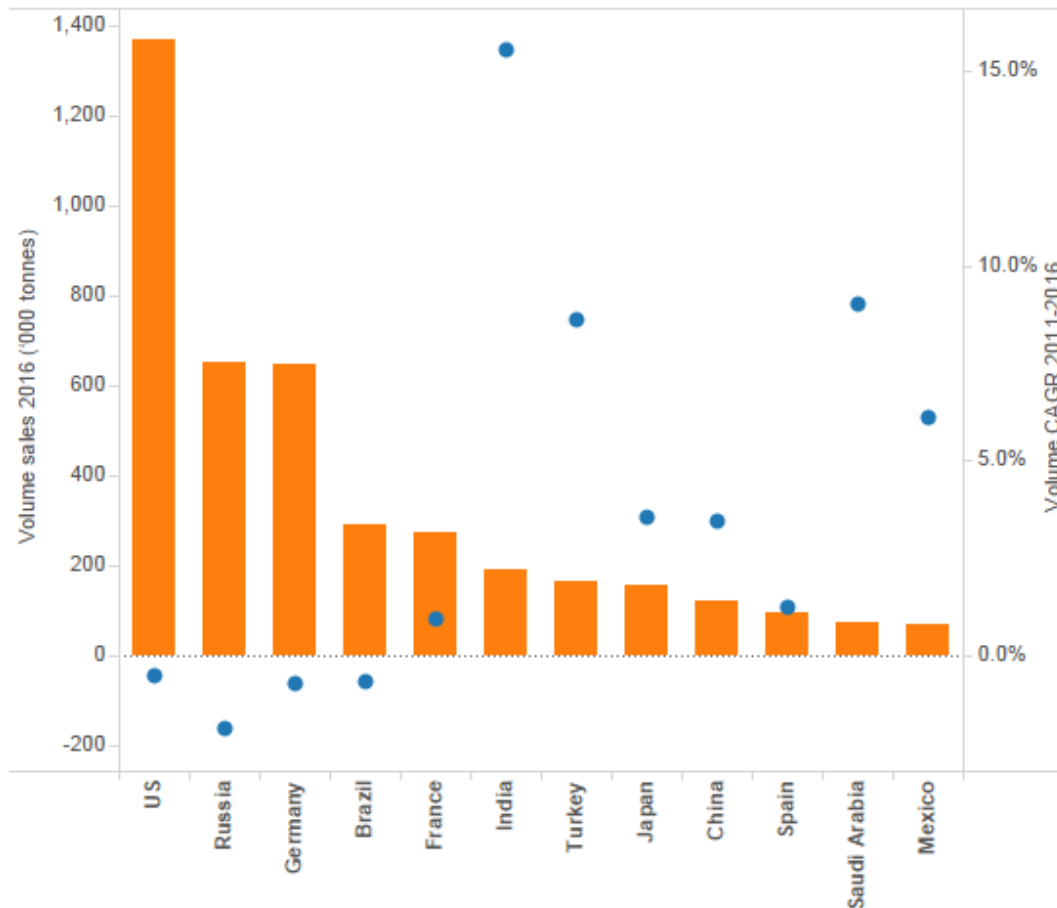
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Leading Market Value Sales 2011/2016/2021



## Volume slowdown in China and Brazil; West also struggles

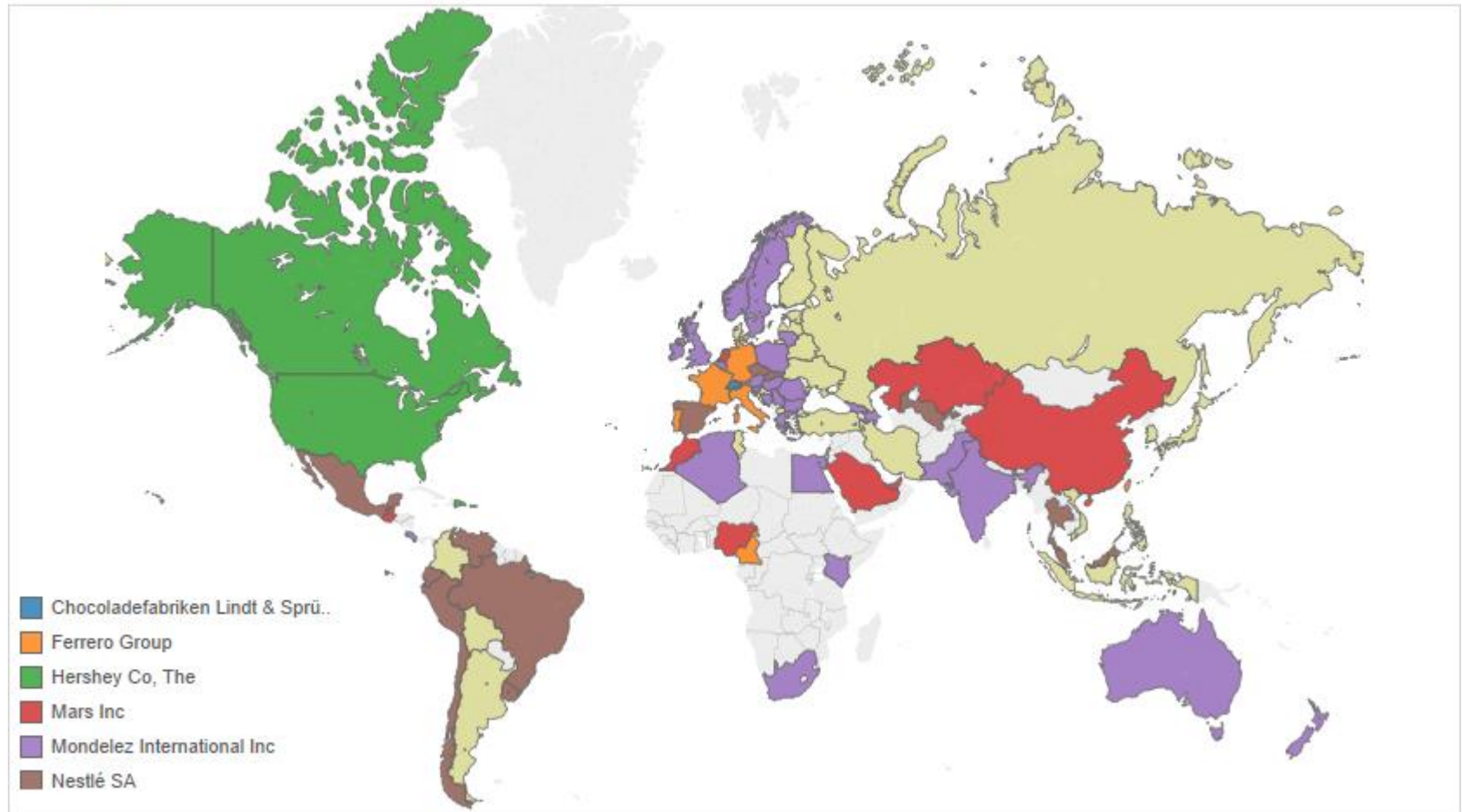
Leading Market Volume Sales 2016 and CAGR 2011-2016



- Perhaps the most eye-catching consumption story of 2011-2016 is the apparent demise of three of the BRIC countries - Brazil, Russia and China. The bulk of this slowdown has occurred in the last two years due to macroeconomic headwinds.
- This combined with a slowdown in core markets - a product of saturation, growing health awareness and snack substitution. Global volumes posted a poor 1% CAGR in these years.
- Growth has moved to the likes of Mexico, Turkey and Indonesia, while India continues to grow at an impressive pace. These remain nascent markets for chocolate, where distribution is increasing and the product grows more affordable.

# Mondelez the leading company in more markets...

The "Big Six" Chocolate Manufacturers and Where They Rank Number One by Value Sales 2016



## Large manufacturers must increase chocolate's appeal

- The majority of manufacturers derive high profit margins from the business, and so will continue to produce chocolate. The reality for most, however, will be that they continue to operate in a low-growth but fast-changing chocolate environment. Manufacturers need to work harder globally to increase chocolate's appeal.
- The most likely strategy for this will be miniaturisation; consumers in the West still want to eat chocolate, they just want to feel less guilty when they do so. Consumers in growing chocolate markets cannot afford chocolate; miniaturisation will tackle this problem. The other way chocolate can appeal is via retailing. Chocolate is suffering in the West because consumers take it for granted; it is now a commodity. Providing a high-quality retail experience - while perhaps expensive to maintain - will provide this and drive value sales.
- Beyond significant growth markets such as India, Turkey, Mexico and Indonesia, chocolate has been experiencing something of a slowdown, while Euromonitor estimates China will recover to see volume growth of 16% between 2016 and 2021.

**US\$13  
billion**

Additional value sales  
between 2016 and 2021

**13%**

Global value sales  
growth between 2016  
and 2021

**559,100  
tonnes**

Additional volume sales  
between 2016 and 2021

## READY MEALS: CHALLENGES AND OPPORTUNITIES TO REACH MARKET POTENTIAL

- INTRODUCTION
- EVALUATING UNMET MARKET POTENTIAL
- CONCLUSION



## Key findings

**Large unmet market potential in chilled ready meals in China and the US**

Although ready meals sales are forecast to remain more dependent on developed markets than other packaged food categories, the unmet market potential is high in key emerging markets, notably China. Meeting the market potential would involve more varied products and wider distribution. Among developed markets, the US has the world's highest unmet market potential for chilled ready meals, which may be achieved mostly through encroaching on adjacent categories, but also by increasing the assortment at convenience stores.

**Competition from foodservice encourages shift towards premium and "authentic" ranges**

Reaching the unmet market potential in ready meals, particularly for pizza, involves tapping into foodservice demand, notably by competing against takeaways. This is encouraging manufacturers to develop more premium ranges, mirror ethnic food trends, and seek collaborations with foodservice chains or celebrity chefs. This also feeds demand for more "authentic" and regional recipes, and for greater ingredient traceability.

**Ready meals seek to target healthy snacking and on-the-go consumption**

Responding to the increasing overlap between snacking occasions and meals in eating habits, especially among young adults, manufacturers seek to adapt their offer with ready meals suitable for on-the-go consumption, and are responding to the rise in demand for more nutritious and healthier snacks.

**Free-from, organic and vegetarian ranges make inroads**

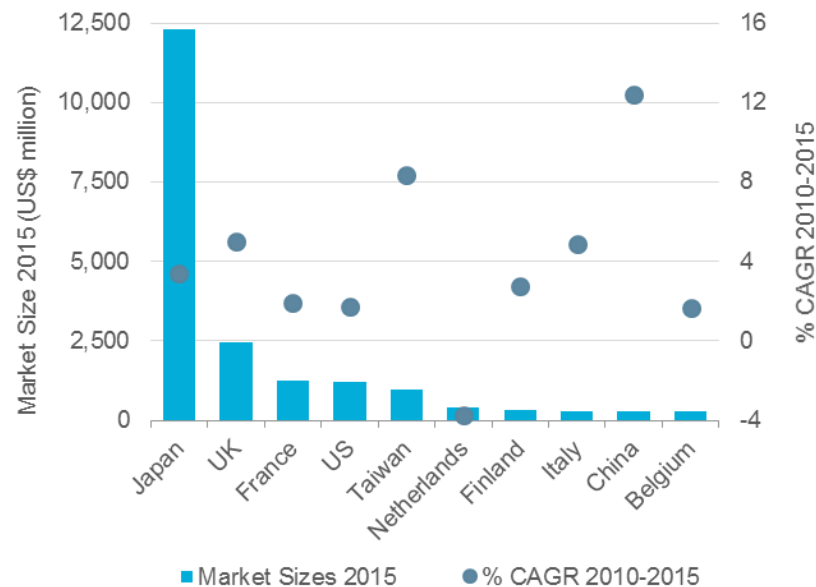
Free-from and organic ready meals are outperforming overall ready meals sales in the US and Western Europe. Some US organic brands are making inroads following their acquisition by major global food companies, enabling them to reach wider distribution, while retailers focus on organic private label ranges. The emergence of new ranges targeting vegetarians is being driven in part by the rise in the number of so-called "flexitarians", who actively reduce meat consumption.



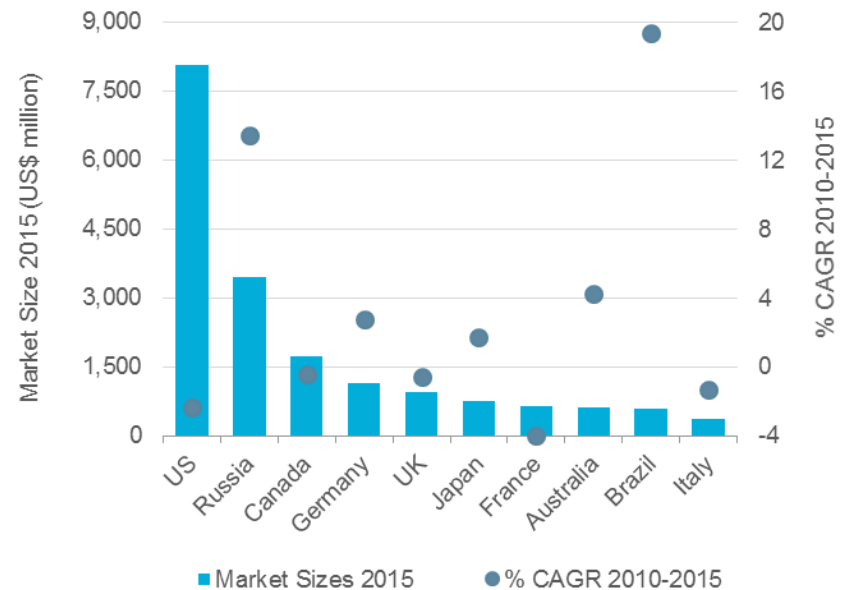
## Chilled and frozen ready meals: Emerging markets' rapid growth

- In both chilled and frozen ready meals, the 10 largest markets are strongly dominated by developed markets, although the highest growth rates between 2010 and 2015 were recorded in emerging markets. In chilled ready meals, the two largest markets in Asia after Japan – Taiwan and China – recorded the strongest growth among the top 10 markets. In all three markets, growth was supported by greater availability at convenience stores. In frozen ready meals, the two fastest growing markets, Brazil and Russia, saw sales growth largely driven by price increases. As both countries faced deep recessions in 2015, continuing in 2016, growth forecast is set to slow sharply over the 2015-2020 period.

Chilled Ready Meals: Top 10 Markets – Sizes 2015 and Sales Growth 2010-2015



Frozen Ready Meals: Top 10 Markets – Sizes 2015 and Sales Growth 2010-2015

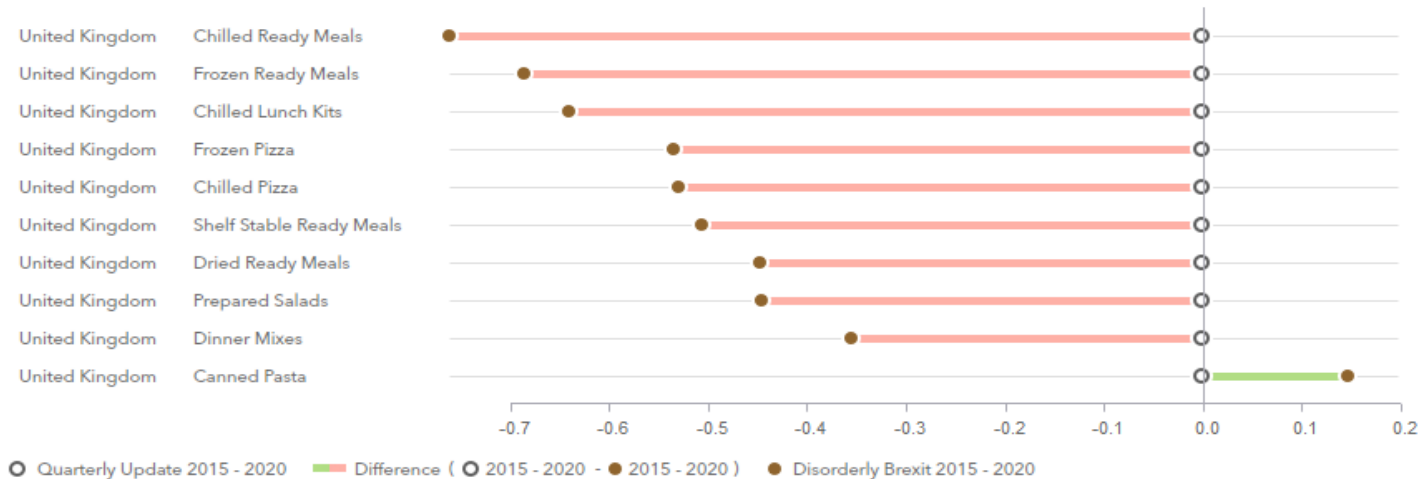


## Impact of disorderly Brexit: Premium ready meals to be most hit

- As the UK is a net food importer, particularly for vegetables, and the majority of imports come from the EU, the impact of a weaker pound to the euro is set to boost the price of imported products. A disorderly Brexit scenario, whereby free trade agreements between the UK and the EU were to be terminated, would add further price increases and curtail potential for innovation. Ready meals are expected to be more affected than the overall packaged food industry by a disorderly Brexit, as most ready meals are seen as discretionary types of food with higher unit prices than staple food, and can be substituted by other, more affordable products, such as canned pasta, one of the few categories predicted to be positively impacted.
- Chilled ready meals are forecast to be the most severely hit type of ready meals, as the category's high unit prices will see the product's affordability being particularly undermined by further price increases. As chilled ready meals have a high income elasticity, sales are expected to be strongly hit by lower consumer confidence and lower disposable incomes resulting from a disorderly Brexit. However, the pressure on retail sales may be partly offset by a boost in retail sales from capturing some foodservice demand, as consumers will reduce expenditure on eating out, especially for pizza.

### Retail Value Sales, Real US\$ mn, 2015 - 2020 CAGR %

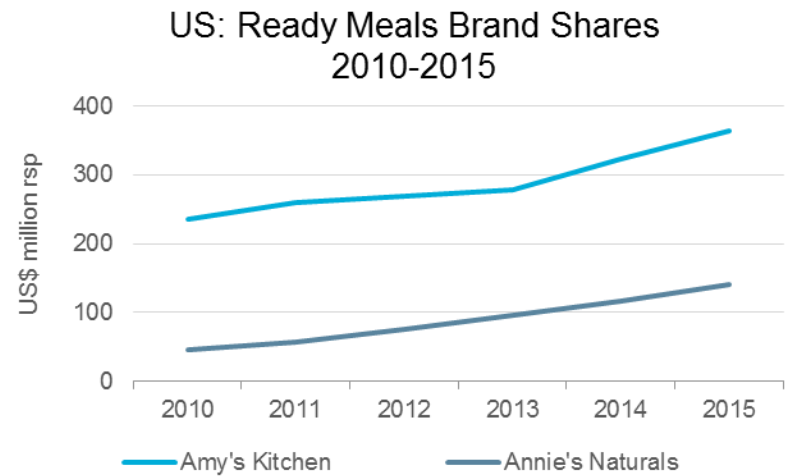
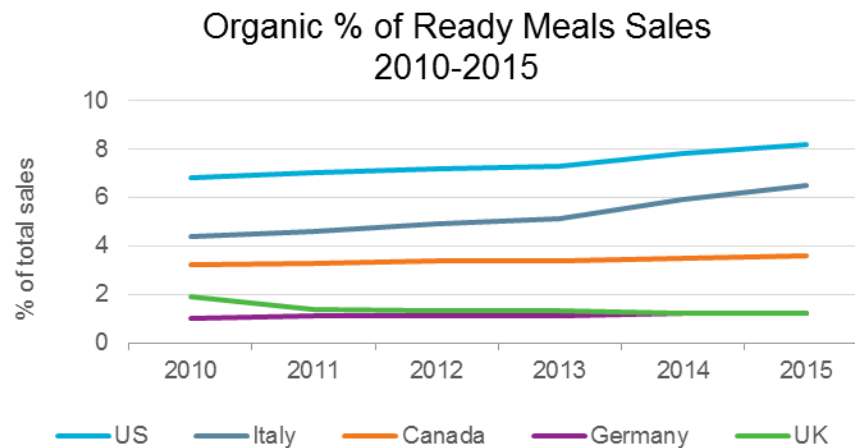
2015 Constant Prices, 2015 Fixed Year Exchange Rate



○ Quarterly Update 2015 - 2020    — Difference (○ 2015 - 2020 - ● 2015 - 2020)    ● Disorderly Brexit 2015 - 2020

## Natural ingredients and organic brands drive ready meals growth

- Two of the largest brands positioned as natural and organic in ready meals in the US, Amy's Kitchen and Annie's Naturals, acquired by General Mills in 2014, recorded steady growth between 2010 and 2015, as they benefited from the rising popularity of organic products in the US, partly driven by increased demand for non-GMO certified food. While organic ready meals are more established in the US than in most other developed markets, this category made gains in Western Europe and Canada. In Italy, it was largely driven by the Almaverde Bio brand. Building on its strong presence in the UK, Amy's Kitchen has ambitious expansion across Western Europe, where it plans to open a production site in 2019.
- The competitive pressure from brands positioned as healthier and natural moving away from their niche status has put extra pressure on major US manufacturers suffering from the shift towards healthier variants to remove artificial ingredients, a strategy which could help maintain ready sales in the US. Kraft Heinz sought to retain its position as the second largest player in ready meals in the US by using natural alternatives and removing artificial preservatives and colours in its Kraft Macaroni & Cheese dried ready meals in early 2016, following a similar move announced in 2015 by Nestlé for Stouffer's, the US's largest ready meals brand.



## Key recommendations: Health, snacking and foodservice trends

### Distribution strategies: Convenience stores for chilled ready meals, internet retailing for frozen

- Ready meals sales are vulnerable to “perimeter shopping”, whereby shoppers avoid the centre of large stores, which typically focus on heavily processed types of food, notably in the US. Ready meals may benefit from targeting other distribution channels and partly meeting foodservice demand. Widely sold at convenience stores in Japan, chilled ready meals are underrepresented in this channel in other markets, while frozen ready meals and frozen pizza can make gains in internet retailing.

### Healthy snacks: Meeting demand for on-the-go eating through recipes with key health attributes

- Health and on-the-go attributes are key drivers for ready meals, particularly driving the popularity of ready meals among young adults seeking healthy snacks. A focus on premium products, such as free-from, organic and vegetarian ranges also boosts health credentials. While such strategies fuel the rise of chilled ready meals and prepared salads, they may also help offset stagnation in categories such as frozen and shelf stable ready meals.

### Matching foodservice and ethnic food trends through authentic and traceable ingredients

- More premium ready meals can compete more closely with foodservice, notably through licensing agreements with foodservice chains or with recipes endorsed by celebrity chefs, as well as by following more closely ethnic food trends and promoting traceability and authentic ingredients. This allows the targeting of economically active adults who lack time or money to buy from foodservice, and the elderly. Offering more sophisticated dinner kits could also help target consumers who cook from scratch.

### Balancing premiumisation and cost controls with view towards long-term geographic growth

- In developed markets, private label dominance and intense price battles require strong cost discipline, which potentially undermines innovation and premiumisation efforts. Smaller portions and close partnerships with players operating in adjacent categories, notably sauces, dressings and condiments, can help balance innovation and cost controls. Smaller portions may also help target emerging markets through greater affordability.



### **Further information:**

What Potential Does Food Have in Online Retailing?

<http://www.euromonitor.com/what-potential-does-food-have-in-online-retailing-/report>

Global Chocolate Confectionery Overview: Challenges, Opportunities and Risks

<http://www.euromonitor.com/global-chocolate-confectionery-overview-challenges-opportunities-and-risks/report>

Ready Meals: Challenges and Opportunities To Reach Market Potential

<http://www.euromonitor.com/ready-meals-challenges-and-opportunities-to-reach-market-potential/report>

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